

Message Text

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ACTION EB-07

INFO OCT-01 ISO-00 AF-06 ARA-06 EA-06 EUR-12 NEA-10 AID-05

CEA-01 CIAE-00 COME-00 FRB-03 INR-07 IO-10 NSAE-00

OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01

ERDA-05 DODE-00 FEAE-00 FPC-01 H-02 INT-05 L-03

NSC-05 PM-03 USIA-06 SAM-01 OES-03 SS-15 STR-04 PA-01

PRS-01 /141 W

----- 079635

R 061639Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1743

INFO AMEMBASSY JIDDA

AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: UK, EFIN, ENRG

SUBJECT: HIGHLIGHTS OF SHEIK YAMANI'S ADDRESS AND COMMENTS
AT THE LONDON STOCK EXCHANGE

BEGIN UNCLASSIFIED SUMMARY: DURING SPEECH AT THE STOCK
EXCHANGE, SHEIK YAMANI INDICATED A REDUCTION IN PRICE OF
OIL WOULD COME ABOUT ONLY IN RETURN FOR CORRESPONDING
BENEFITS PROVIDED TO THE PRODUCERS BY THE CONSUMERS. HE
CALLED FOR A SUCCESSFUL PRODUCERS/CONSUMERS CONFERENCE.

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IN REPLY TO A QUESTION, HE SAID THE OPEC PRICE FREEZE

WOULD LAST UNTIL SEPTEMBER; WHETHER IT WILL BE EXTENDED OR A NEW PRICE RISE MADE DEPENDS LARGELY ON THE OUTCOME OF A FUTURE DIALOGUE BETWEEN PRODUCERS AND CONSUMERS AND THE RICH AND POOR NATIONS. IF THERE IS A GOOD MEETING, THEN THERE IS A GOOD CHANCE FOR THE FREEZE TO BE EXTENDED BEYOND SEPTEMBER 1975. IF THERE IS A SLIGHT INCREASE IN PRICE AS A RESULT OF LINKING OIL PRICES TO THE SDR, THIS SHOULD NOT BE VIEWED AS THE END OF THE FREEZE, BECAUSE IT CAN WORK TWO WAYS, WITH THE VALUE OF THE SDR IN TERMS OF DOLLARS INCREASING OR DECREASING DEPENDING UPON THE STRENGTH OF THE DOLLAR IN WORLD MARKETS. END SUMMARY.

1. YAMANI SPEAKING AT A CHAIRMAN'S LECTURE AT THE LONDON STOCK EXCHANGE DIVIDED HIS PREPARED COMMENTS BETWEEN WORLD OIL RESERVES, OIL PRICES, AND THE REQUIREMENTS OF CONSUMER AND PRODUCER NATIONS. HE CITED THE RESERVE FIGURES PRESENTED AT THE 9TH WORLD PETROLEUM CONGRESS, SAYING SAUDI ARABIA HAS 22 PERCENT OF FREE WORLD RESERVES. OBTAINING OIL FROM UNDERWATER SOURCES WILL BE EXPENSIVE OF OIL WILL PROBABLY BE EXHAUSTED IN 37 YEARS. THE WORLD IS FACED WITH A GRAVE SITUATION AND MUST REDUCE PRODUCTION OF CONVENTIONAL CRUDE BY THE LATE 1980S.

2. ON PRICES, YAMANI SAID THAT ON THE BASIS OF PRICE INDEX OF OECD COUNTRIES SINCE 1948, THE PRICE FOR OIL SHOULD HAVE BEEN ABOVE \$12, WHICH IS MORE THAN \$1.50 ABOVE CURRENT PRICES. ADJUSTED PRICE LEVELS IN EARLY 1974 PROVIDED PRODUCING COUNTRIES WITH THE INCENTIVE TO RAISE CRUDE OIL PRODUCTION BY 6 MILLION BARRELS PER DAY. LATER PRODUCTION CUTBACKS CAME AS A RESULT OF DECLINE IN DEMAND AND NOT BECAUSE OF DESIRE OF OPEC COUNTRIES TO RAISE PRICES. CURRENT LOW SUPPLY OF OIL IS A REFLECTION OF LOW DEMAND. HOWEVER, SUPPLIERS WILL NOT CUT PRICES AS IN THE CASE OF OTHER MINERALS BECAUSE OPEC COUNTRIES HAVE SUFFICIENT INCOME FOR THEIR NEEDS. YAMANI CITED RECENT MORGAN-GUARANTY STUDY AS PROOF THAT ALTHOUGH THE SIZE OF OPEC SURPLUS WILL BE REDUCED, REVENUES WILL STILL EXCEED EXPENDITURES SO THAT THERE WILL BE NO NEED TO CUT PRICES. THE PRODUCERS ARE IN A STRONG POSITION. YAMANI QUIETLY RIDICULED OECD/IEA ESTIMATES INDICATING OVERSUPPLY, WITH CON-

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CLUSION THAT THERE WOULD BE SEVERE PRICE CUTTING. HE CALLED OECD PREDICTIONS ON DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES OVERLY OPTIMISTIC. HE SAW THE IEA FLOOR PRICE PROPOSAL AS A MOVE TO FORCE PRICES DOWN TO A LEVEL DESIRED BY THE CONSUMERS. PRICES SHOULD BE DETERMINED BY PRODUCERS REQUIREMENTS. OPEC WOULD NOT REDUCE PRICES EXCEPT IN RETURN FOR CORRESPONDING BENEFITS PROVIDED TO THE PRODUCERS BY THE CONSUMERS. SAUDI ARABIA IS NOT AP-

PREHENSIVE ABOUT THE DEVELOPMENT OF OTHER ENERGY RESOURCES
AND THINKS EXISTING PRICES ARE NOT HIGH ENOUGH TO BRING
ON THEIR MASSIVE DEVELOPMENT. IN REAL TERMS OIL PRICES
RELATIVE TO OTHERS HAVE DROPPED BY \$2 PER BARREL DURING
THE PAST YEAR. RECYCLING PROBLEM HAS BEEN LARGELY RE-
SOLVED BY THE RISING ABSORPTIVE CAPACITY OF THE OPEC
COUNTRIES FOR FOREIGN IMPORTS. THE OECD FINANCIAL SUP-
PORT FUND HAS ALSO MADE A CONTRIBUTION TO THE SOLUTION.

3. YAMANI CONCLUDED THAT THE 6TH SPECIAL SESSION OF THE
UN GENERAL ASSEMBLY HAS SET IN MOTION A FORCE THAT MUST
NOT STOP. THE SHORTSIGHTED COMPLACENCY OF A FEW RICH
NATIONS FOR THE NEEDS OF THE POOR MUST NOT BE ALLOWED TO

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PRS-01 /141 W

----- 079656

R 061639Z JUN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1744

INFO AMEMBASSY JIDDA

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GO UNCHECKED. THE TREND FOR THE RICH TO GET RICHER AND THE POOR TO GET POORER MUST BE REVERSED AND WILL BE NECESSARY TO INSURE THE LONGEVITY OF THE RICH. IT IS IMPERATIVE TO SEEK OUT THE INEQUALITIES IN THE WORLD ECONOMY AND REMOVE THEM. THIS MUST BE THE AIM OF A PRODUCER/CONSUMER CONFERENCE. THE PRODUCER/CONSUMER CONFERENCE WAS NOT SUCCESSFUL IN APRIL, BUT THE WORLD NEEDS A SUCCESSFUL OUTCOME WHICH IS THE ONLY HOPE TO OVERCOME WORLD ECONOMIC DIFFICULTIES. YAMANI ENDED HIS PREPARED COMMENTS AT THIS POINT.

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4. IN REPLY TO A QUESTION ABOUT THE OUTLOOK FOR OIL PRICES, YAMANI SAID THE OPEC PRICE FREEZE WILL REMAIN UNTIL SEPTEMBER. WHETHER IT IS EXTENDED OR A NEW PRICE INCREASE MADE DEPENDS LARGELY ON THE OUTCOME OF THE FUTURE DIALOGUE BETWEEN PRODUCERS AND CONSUMERS AND RICH AND POOR. IF THERE IS A GOOD MEETING, THEN THERE IS A GOOD CHANCE THAT THE FREEZE WILL BE EXTENDED BEYOND SEPTEMBER 1975. IF THERE IS A SLIGHT INCREASE IN THE PRICE AS A RESULT OF LINKING THE OIL PRICE TO SDR, THIS SHOULD NOT BE SEEN AS AN END TO THE FREEZE. VALUE OF SDR IN TERMS OF DOLLARS CAN WORK TWO WAYS, UP OR DOWN, DEPENDING UPON THE PRICE OF THE DOLLAR IN WORLD MARKETS.

5. IN REPLY TO A QUESTION FROM LORD CROMER (FORMER UK AMBASSADOR IN WASHINGTON AND FORMER GOVERNOR OF THE BANK OF ENGLAND) YAMANI SAID THAT THE 1972 GENEVA AGREEMENT PRICING OIL IN TERMS OF A BASKET OF CURRENCIES WEIGHTED TO DOLLAR HAD GIVEN SOME STABILITY. SHIFTING TO PRICING ONLY IN DOLLARS WITH THE DOLLAR MOVING SHARPLY UP AND DOWN IN WORLD MARKETS HAD RESULTED IN UNSTABLE REVENUES. THERE WOULD BE MORE STABILITY THROUGH LINKING THE OIL PRICE TO THE SDR.

6. IN REPLY TO QUESTION ABOUT DIFFERENCES IN PRODUCTIVE CAPACITY, AND AUTHORIZED PRODUCTION LEVELS AND POSSIBLE EFFECTS OF PRICE CUTTING, YAMANI ACKNOWLEDGED THAT ALGERIA AND INDONESIA MIGHT CUT PRICES OR STEP UP THEIR PRODUCTION BUT IN WORLD TERMS THIS WOULD HAVE ONLY MINIMAL SIGNIFICANCE. THE POWER IS IN THE GULF, WITH SAUDI ARABIA, IRAN, IRAQ AND KUWAIT. THE ALGERIANS CUT PRICES BY \$2 PER BARREL BECAUSE THEY NEEDED TO SELL, BUT THIS RESULTED IN ONLY AN ADDITIONAL 200,000 BARRELS PER DAY AND THAT WON'T

CHANGE THE BIG PICTURE. WHAT WILL CHANGE THE PICTURE IS
WHAT THE SAUDIS DO. SAUDI ARABIA IS IN THE DRIVER'S SEAT.
EVEN IF THERE ARE INCREASES OR CUTS IN PRODUCTION, IT
WON'T CHANGE THE PRICE. END UNCLASSIFIED

7. BEGIN LIMITED OFFICIAL USE. ABOVE BASED ON FINANCIAL
ATTACHE'S NOTES. WHEN OFFICIAL TEXT IS AVAILABLE, WE
WILL FORWARD IT TO WASHINGTON, OECD AND JIDDA. BRITISH
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GOVERNMENT REPRESENTED BY RUSSELL BARRATT, DEPUTY SECRE-
TARY, H.M. TREASURY, AND LEONARD WILLIAMS, DEPUTY SECRE-
TARY, DEPARTMENT OF ENERGY. IN PRIVATE CONVERSATIONS,
THEY WERE LESS POSITIVE THAN YAMANI THAT THERE WOULD NOT
BE WIDER PRICE CUTTING AND WERE LESS SURE THE CARTEL
COULD HOLD TOGETHER. DURING CONVERSATION BETWEEN BARRATT
AND YAMANI, YAMANI SAID HE WOULD LIKE TO SEE RENEWED PRO-
DUCER CONSUMER DIALOGUE THIS MONTH WITH COMMISSIONS MEET-
ING THROUGH JULY AND AUGUST. BARRATT APPEARED SKEPTICAL
THAT THIS TIMETABLE COULD BE MET. END LIMITED OFFICIAL
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, POLICIES, SPEECHES, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 06 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ellisoob
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON08649
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750198-0824
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750674/aaaacpr.tel
Line Count: 249
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ellisoob
Review Comment: n/a
Review Content Flags:
Review Date: 14 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 APR 2003 by ElyME>; APPROVED <14 OCT 2003 by ellisoob>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: HIGHLIGHTS OF SHEIK YAMANI'S ADDRESS AND COMMENTS AT THE LONDON STOCK EXCHANGE
TAGS: EFIN, ENRG, UK, SA, OPEC, (YAMANI, AHMAD ZAKI)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006